

DIAMOND STATE PORT CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2006

DIAMOND STATE PORT CORPORATION
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JUNE 30, 2006

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Independent Auditors' Report

Board of Directors
Diamond State Port Corporation

We have audited the accompanying financial statements of the Diamond State Port Corporation, a component unit of the State of Delaware, as of and for the years ended June 30, 2006 and 2005, as listed in the index. These financial statements are the responsibility of the Diamond State Port Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diamond State Port Corporation as of June 30, 2006 and 2005, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2006 on our consideration of the Diamond State Port Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report and in considering the results of our audit.

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Independent Auditors' Report (Cont'd.)

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McBride, Shopa & Co

Wilmington, Delaware

August 1, 2006

Management's Discussion and Analysis

(all amounts in \$'000)

As management of the Diamond State Port Corporation (the Port), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information detailed in the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Port exceeded its liabilities at June 30, 2006 by \$130,188 (*net assets*). Included in this amount is \$116,708 invested in capital assets net of related debt; and restricted net assets of \$7,132 after providing for relevant liabilities for payments to capital projects vendors and for debt service payments.
- The Port's total net assets increased by \$12,573. The Port incurred a net loss of \$3,534 before Capital Contributions and Special Item. A comparable net loss for FY 2005 was \$2,610. The loss of \$3,534 was offset by \$15,500 received from the State of Delaware and \$210 reimbursed by Federal government in grants for security updates.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of four components: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses, and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The Statement of Net Assets presents information on all of the Port's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Port's operations generated revenues and required expenses, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., outstanding invoices and earned but unused vacation leave).

The Statement of Cash Flows presents information showing the Port's cash receipts and payments during the fiscal period classified by principal sources and uses segregated into key elements.

Notes to the Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Basis of Accounting: The Financial Statements of the Port are prepared using the economic resources measurement focus and accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). The Port is a component unit of the State of Delaware. The Port's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges. The Port has adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, which provides for the consistent application of GASB pronouncements.

Financial Analysis

As noted earlier, Net Assets, when read in conjunction with other data, may serve over time as a useful indicator of the financial position of the Port. Port assets exceeded liabilities by \$130,188 at the close of the most recent fiscal year.

Port's Net Assets (\$ '000)

	2006	2005
Current and other assets	\$ 15,646	\$ 21,184
Capital assets	164,539	150,465
Total assets	180,185	171,649
Long-term liabilities outstanding	36,398	48,120
Other liabilities	13,599	5,914
Total liabilities	49,997	54,034
Net assets:		
Invested in capital assets, net		
of related debt	116,708	99,328
Restricted	7,132	13,638
Unrestricted	6,348	4,649
Total net assets	\$ 130,188	\$ 117,615

By far the largest portion of the Port's net assets (90%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The increase in net assets invested in capital assets from \$99,328 in FY 2005 to \$116,708 in FY 2006 is mainly due to the construction of Warehouse H, equipment purchases, and security infrastructure. The Port uses these capital assets to provide services to port users; consequently, these assets are *not* available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Port's net assets represents resources that are subject to external restrictions on how they may be used. The value of restricted assets includes \$15,500 grants for Capital improvement projects received from the State of Delaware as reduced by expenditure and outstanding liabilities incurred while creating such restricted assets, usable only for payments for Capital projects. The balance of net assets - \$6,348 - represents *unrestricted net assets* available for any Port related business use. The increase of \$1,699 from the unrestricted net assets of \$4,649 as of June 30, 2005 reflects the income before depreciation, as well as changes to other categories of Net Assets of the Port during FY 2006.

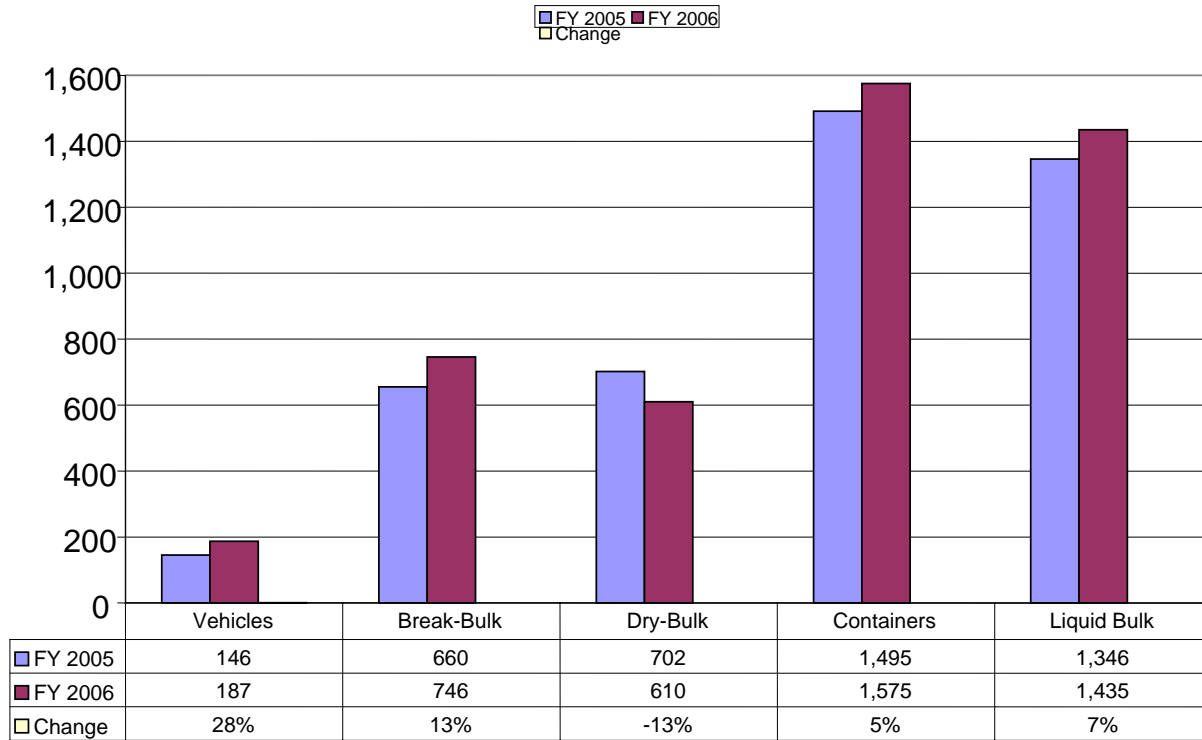
Port Activities. Port activities reduced the Port's net assets by \$3,534. Key elements of this change are as follows:

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Cargo Handling	\$ 14,539	\$ 12,170
Dockage & Wharfage	7,226	6,633
Leasing & Storage	7,370	7,405
Other	<u>1,845</u>	<u>1,536</u>
Total Operating Revenues	<u>30,980</u>	<u>27,744</u>
Operating Expenses:		
Salaries, Wages & Benefits	17,005	15,521
Materials, Supplies & Services	11,060	8,657
Depreciation	<u>4,687</u>	<u>4,343</u>
Total Operating Expenses	<u>32,753</u>	<u>28,251</u>
Operating Income (Loss):	(1,774)	(507)
Interest Expense	(2,311)	(2,261)
Interest Income	<u>551</u>	<u>158</u>
Net Loss - before Capital Contributions and Special Items:	(3,534)	(2,610)
Capital Contributions	15,710	15,989
Special Item	<u>396</u>	<u>0</u>
Increase in Net Assets	12,573	13,379
Net Assets – Beginning	<u>117,615</u>	<u>104,236</u>
Net Assets – Ending	<u>\$ 130,188</u>	<u>\$ 117,615</u>

Cargo Tonnage:

A total of 4.5 million tons of cargo passed over the Port's facilities in FY 2006, an increase of 5% of the 4.3 million handled in FY 2005.

Cargo Volume by groups ('000 short tons)



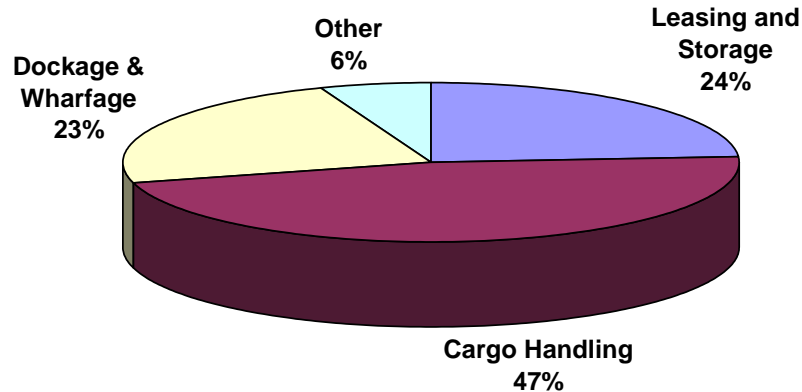
The growth in break-bulk volume resulted from increases of: Argentine juice, palletized bananas, Chilean Fruit and lumber. Petrocoke volume decline accounted for the dry bulk shortfall. Very strong export volume and modest import increases fueled the vehicle tonnage increase.

Operating Revenue:

During FY 2006, the Port earned \$30,980 as operating revenue. This is an increase of \$3,236 from the operating revenue of \$27,744 earned in FY 2005.

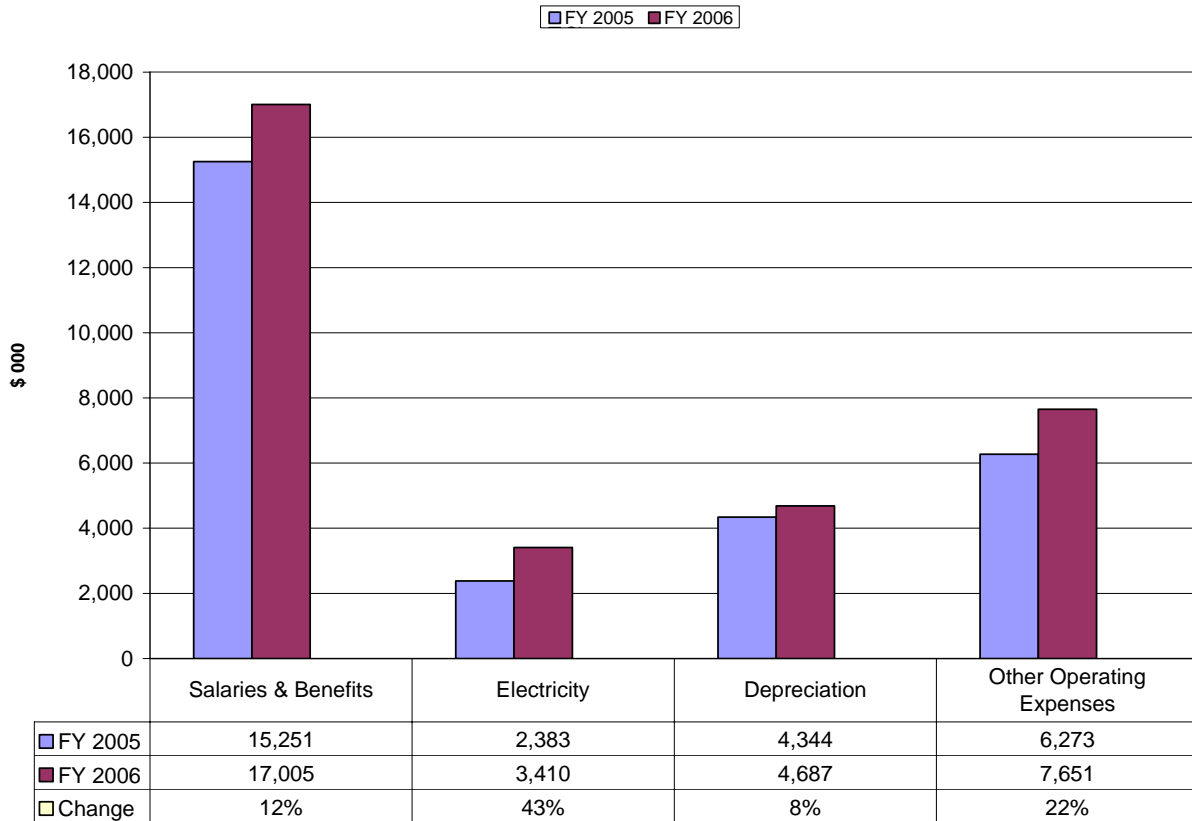
The growth in break bulk cargo volumes produced corresponding increases in vessel and cargo handling revenues. Storage revenue in FY 2006 was \$3,470, an increase of \$686 over the \$2,784 storage revenue earned in FY 2005. Leasing revenue declined from \$4,621 in FY 2005 to \$3,900 in FY 2006 because of the loss of Lafarge and Premier Juice as tenants.

Revenues by Source



Operating Expenses:

Total operating expense of \$ 32,753 in FY 2006 is an increase of \$4,502 or 16% over FY 2005.



Salaries and benefit expense increased by \$1,754 in FY 2006. In addition to higher wage rates and benefit expenses, the increase in cargo volume required more labor hours. The \$1,027 increase in electricity expense was entirely due to purchase price increases felt throughout the State of Delaware. Larger repair & maintenance costs and increased equipment rental requirements (to handle the strong breakbulk cargo volume) were the main contributors to the increase in other operating expenses.

Capital Asset and Debt Administration

Capital assets: The Port's investment in capital assets as of June 30, 2006, amounts to \$164,539 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, docks and wharves, and machinery and equipment. The net increase in the Port's investment in capital assets for the current fiscal year was \$14,074.

In addition to the construction of Warehouse H, major capital assets acquired during FY 2006 include the purchase of handling equipment and upgrading of security infrastructure.

		Capital Assets	
		(\$ '000)	
		2006	2005
Land and Improvements	\$	34,967	\$ 34,070
Buildings		83,849	66,365
Docks & Wharves		45,057	45,054
Equipment		22,970	21,718
Streets and Utilities		4,937	3,995
Vehicles and other assets		7,553	6,853
Sub total		199,333	178,055
Accumulated Depreciation		(35,376)	(30,973)
Total		163,957	147,082
Construction in progress		582	3,383
Total	\$	<u>164,539</u>	<u>\$ 150,465</u>

Additional information on the Port's capital assets can be found in Note 5 of Notes to Financial Statements.

Long-term Notes Payables: At the end of the current fiscal year, the Port had total long-term Notes Payables outstanding of \$56,519. Of this amount, \$16,938 comprises debt to the City of Wilmington incurred at the time of the acquisition of the Port by the State of Delaware from the City of Wilmington in 1995. DRBA is owed \$5,229, as part of their financial participation in Warehouse H. The Delaware Department of Transportation (DelDOT) Transportation Trust Fund is owed \$34,352 for funds borrowed during FY 2002 and subsequent years. On June 30, 2006, the State of Delaware provided \$5 million to meet certain debt payable to the City of Wilmington on July 1, 2006 and July 1, 2007. The State of Delaware also provided for a prepayment of \$10 million on July 1, 2006 to the Delaware Department of Transportation's Transportation Trust Fund for the funds borrowed during FY 2002.

Additional information is available in Note 8 of Notes to Financial Statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

ASSETS		
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,161,347	\$ 3,449,461
Accounts receivable	3,046,270	2,901,830
Grant receivable	-	280,788
Inventory	488,875	538,746
Prepaid expenses and other assets	<u>818,061</u>	<u>375,115</u>
	8,514,533	7,545,940
RESTRICTED ASSETS		
Cash and cash equivalents	7,131,866	13,637,759
CAPITAL ASSETS – NON-DEPRECIABLE	26,086,611	28,887,285
CAPITAL ASSETS – DEPRECIABLE, net	<u>138,452,107</u>	<u>121,577,672</u>
TOTAL ASSETS	<u>\$180,185,137</u>	<u>\$171,648,656</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable	\$ 141,500	\$ 102,746
Accrued expenses	1,777,667	2,110,481
Accrued interest payable	61,672	463,702
Due to the State of Delaware – pension costs	62,189	76,301
Notes payable – current portion	11,432,500	2,984,943
Capital lease payable - current portion	-	31,962
Deferred revenue	<u>123,304</u>	<u>143,372</u>
	13,598,832	5,913,507
 NOTES PAYABLE	 <u>36,398,353</u>	 <u>48,119,892</u>
 TOTAL LIABILITIES	 49,997,185	 54,033,399
 NET ASSETS		
Invested in capital assets - net of related debt	116,707,865	99,328,160
Restricted		
Capital Improvement Fund	7,131,866	13,637,759
Unrestricted	<u>6,348,221</u>	<u>4,649,338</u>
 TOTAL NET ASSETS	 <u>130,187,952</u>	 <u>117,615,257</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$180,185,137</u>	 <u>\$171,648,656</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Handling	\$ 14,538,943	\$ 12,169,892
Dockage and wharfage	7,225,705	6,633,235
Leasing	3,899,813	4,621,289
Storage	3,470,146	2,783,762
Other operating revenue	<u>1,844,875</u>	<u>1,535,783</u>
	30,979,482	27,743,961
OPERATING EXPENSES		
Salaries and benefits	17,005,428	15,250,720
Materials, supplies and contractual services	11,060,621	8,656,881
Depreciation expense	<u>4,687,094</u>	<u>4,343,568</u>
	<u>32,753,142</u>	<u>28,251,169</u>
OPERATING LOSS	(1,773,661)	(507,208)
NONOPERATING INCOME (EXPENSE)		
Interest expense	(2,311,013)	(2,260,795)
Interest income	<u>550,722</u>	<u>157,600</u>
	(1,760,291)	(2,103,195)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	(3,533,952)	(2,610,403)
CAPITAL CONTRIBUTIONS		
State Bond Bill	15,500,000	14,500,000
Federal	<u>210,414</u>	<u>1,489,272</u>
	<u>15,710,414</u>	<u>15,989,272</u>
SPECIAL ITEM		
Gain from early repayment of debt	<u>396,233</u>	<u>-</u>
INCREASE IN NET ASSETS	12,572,695	13,378,869
NET ASSETS – BEGINNING	<u>117,615,257</u>	<u>104,236,388</u>
NET ASSETS - ENDING	<u>\$130,187,952</u>	<u>\$117,615,257</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and others	\$ 30,974,836	\$ 27,407,554
Cash payments to suppliers for goods and services	(10,302,800)	(7,015,552)
Cash payments to employees for services	(17,227,606)	(14,954,448)
Cash payments for insurance	<u>(1,115,965)</u>	<u>(1,302,968)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,328,465	4,134,586
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Acquisition and construction of capital assets	<u>(127,728)</u>	<u>(144,095)</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(127,728)	(144,095)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(18,633,127)	(4,741,037)
Interest paid on loans and capital lease	(1,005,848)	(919,979)
Principal paid on loans	(2,984,943)	(3,300,590)
Proceeds from notes payable	3,400,000	-
Payments on capital lease	(31,962)	(31,546)
Contributed capital	<u>10,710,414</u>	<u>15,989,272</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(8,545,466)	6,996,120
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	<u>550,722</u>	<u>157,600</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>550,722</u>	<u>157,600</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,794,007)	11,144,211
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>17,087,220</u>	<u>5,943,009</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,293,213</u>	<u>\$ 17,087,220</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (1,773,661)	\$ (507,208)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	4,687,094	4,343,568
Net change in the allowance for doubtful accounts	(9,033)	(14,341)
(Increase) decrease in:		
Accounts receivable	(135,402)	(262,979)
Grants receivable	280,788	(184,768)
Prepaid expenses and other assets	(442,946)	305,212
Inventories	49,871	1,284
Increase (decrease) in:		
Accounts payable	38,754	(27,913)
Accrued expenses	(332,814)	530,429
Due to State of Delaware – pension costs	(14,112)	3,161
Deferred revenue	<u>(20,074)</u>	<u>(51,859)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,328,465</u>	<u>\$ 4,134,586</u>
SUPPLEMENTAL SCHEDULES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Accretion of deferred loss	<u>\$ 18,691</u>	<u>\$ 52,821</u>
Interest capitalized	<u>\$ 1,379,660</u>	<u>\$ 1,318,319</u>
Contribution from State directly paying down Port Debt Service Note	<u>\$ 5,000,000</u>	<u>\$ -</u>

See notes to the financial statements.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1 ORGANIZATION

The Diamond State Port Corporation (the Corporation) was created on August 3, 1995 in accordance with the provisions of Section 24(1) of Senate Bill 260 enacted by the 138th General Assembly of the State of Delaware. The Corporation is a public instrumentality of the State of Delaware exercising essential government functions necessary in connection with the acquisition, establishment, construction, rehabilitation, improvement, operation, and maintenance of the Port of Wilmington (the Port) and related facilities. The Port was acquired by the Corporation on September 1, 1995. The Corporation is empowered without limitation, and notwithstanding any other laws, to adopt bylaws and rules and regulations to govern the conduct of its affairs and carry out and discharge its powers, duties, and functions, to sue and be sued, and to enter into contracts and agreements. The Corporation does not have power to tax, to issue bonds, to exercise the power of eminent domain, or to pledge the credit or create any debt or liability of the State of Delaware.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting. The accompanying financial statements of the Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to governmental entities as prescribed by the Governmental Accounting Standards Board (GASB). The Corporation (the reporting entity) is a component unit of the State of Delaware. The Corporation's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Operating revenues and expenses generally result from providing services and leasing in connection with the Corporation's ongoing operations. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are recorded as nonoperating revenues and expenses.

The Corporation has adopted the provisions of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting, which provide for the consistent application of GASB pronouncements and only pronouncements of the Financial Accounting Standards Board

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(FASB) issued on or before November 30, 1989, except where those FASB pronouncements conflict with GASB pronouncements in which case the GASB pronouncements take precedence.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Corporation considers short-term investments with an original maturity of three months or less to be cash equivalents.

Short-Term Investments. Short-term investments are stated at cost, which does not exceed estimated net realizable value.

Grants Receivable. A grant receivable is recorded when the Corporation has a right to advances or reimbursements under a grant. Grants receivable as of June 30, 2006 was \$0. The grant receivable of \$280,788 as of June 30, 2005, represents \$231,102 due from the U.S. Department of Homeland Security, Urban Areas Security Initiative Port Security Grant Program for improvements to port security and \$49,686 due from the U.S. Homeland Security, Transportation Security Administration for the Transportation Worker Identification Credentials Program office relocation and renovation.

Accounts Receivable. Accounts receivable are shown net of an allowance for doubtful accounts of \$48,328 and \$57,363 in 2006 and 2005, respectively.

Inventories. Inventories of equipment parts and marketing materials are stated at the lower of cost or market value.

Capital Assets. The assets originally acquired by the Corporation in 1995 were recorded based on estimated fair values. The estimated fair value of land was determined based on an independent appraisal. The fair values of all other assets acquired were estimated to be the book value of those assets at the date of acquisition. Capital additions or improvements are recorded at cost, including those funded by federal or state grants. Additions and improvements in excess of \$3,000 are capitalized.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Depreciation is generally recorded using the straight-line method and half-year convention over the following estimated useful lives:

Improvements (all categories)	20-30 years
Buildings and warehouses	30-75 years
Docks, wharves, and rail	50-60 years
Equipment and cranes	6-40 years
Streets and utilities	20-40 years
Vehicles, systems, other	3-10 years

Revenues. The significant sources of operating revenue are:

Handling - represents charges against the owner of cargo for moving cargo into or out of storage, loading on or off trucks or railcars, or to or from a point of rest on the dock where it has been deposited.

Dockage and wharfage - represents charges assessed against vessels and barges for berthing at the wharf, pier, and bulkhead structures, handling lines for the docking and undocking of vessels, and represents charges assessed against vessels, or against another properly designated party, on all cargo passing or conveyed over, onto, or under wharves or between vessels when berthed at the wharf.

Leasing - represents fees charged on a contractual basis for the rental of land or buildings at the Port. Rates are determined on a contract-by-contract basis.

Storage - represents charges for the storage of cargo in the Port's dry, refrigerated and freezer warehouses and open areas.

Contributions of Capital. Contributions of capital arise from State and Federal grants, generally restricted to capital acquisition and construction. All capital grants and contributions are in the form of cash, which is then used to purchase capital assets, pay debt service, or fund other approved uses.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Compensated Absences. Regular full-time employees accrue vacation in varying amounts based on length of service. Employees can accumulate up to 200 hours, or 25 days of vacation time. Unused vacation time can be carried forward to the next benefit year in an amount up to the annual vacation amount. Upon termination, employees will be paid for unused vacation time.

Sick leave is earned by regular, full-time administrative employees at the rate of one day per month. Unused sick leave benefits accumulate indefinitely. Any sick leave hours unused will not be paid to employees while they are employed or upon termination of employment.

The liability for compensated absences through year-end, but not yet taken, is accrued.

Capital Leases. The discount rate used to impute the present value of the future minimum lease payments is the lower of the Corporation's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Deferred Loss. The Corporation incurred deferred losses on two refundings of the Port Debt Service Note in 2002 and 2005, which are being accreted over the remaining life of the Note at the time of each refunding.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, through subsequent events, actual results could differ from those estimated.

NOTE 3 CASH, INVESTMENTS AND RESTRICTED ASSETS

The Cash Management Policy Board: The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware", of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State with certain limited exceptions.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

Investment Guidelines and Management:

The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

- A. **Cash Accounts:** Divide the State's available cash into three parts:
 - 1) Collection and Disbursement Accounts,
 - 2) Cash and Liquidity Accounts,
 - 3) Reserve Cash (Intermediate) Accounts.
- B. **Special Purpose Accounts.** There are two primary types of Special Purpose Accounts:
 - 1) Endowment Accounts,
 - 2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Corporation's accounts are considered Authority Accounts.

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances. The State's Cash Management Policy is available on the Internet at <http://www.state.de.us/treasure/information/cash.shtml>.

Custodial Credit Risk

Collateralization Requirements: All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

CASH, INVESTMENTS AND RESTRICTED ASSETS (Cont'd.)

return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2006, the financial institutions maintaining the Corporation's deposits satisfied the criteria listed above and the deposits held by those institutions did not require collateralization.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, is under the control of the Corporation. The Corporation invests the deposited cash, including the cash float in short-term securities and other investments.

At June 30, 2006, the carrying value and the bank balances of the Corporation's deposits were \$11,293,213 and \$11,645,399, respectively. Of the bank balances, \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and \$11,545,399 is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the criteria listed above and not requiring collateralization.

Investments

At June 30, 2006, the Corporation held no investments.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 4 RESTRICTED ASSETS

Restricted assets and the purpose of the restriction are as follows:

	<u>2006</u>	<u>2005</u>
Capital improvements	<u>\$ 7,131,866</u>	<u>\$13,637,759</u>

Assets restricted for capital improvements consist of contributions from the State of Delaware. These assets are invested in money market accounts. They are considered to be cash equivalents.

NOTE 5 CAPITAL ASSETS

Capital asset changes during 2006 consisted of the following:

	<u>2005</u>	<u>Additions (Retirements)</u>	<u>Transfers</u>	<u>2006</u>
Capital assets, non-depreciable				
Land	\$ 25,504,410	\$ -	\$ -	\$ 25,504,410
Construction in progress	<u>3,382,875</u>	<u>18,761,597</u>	<u>(21,562,271)</u>	<u>582,201</u>
Total capital assets, non-depreciable	<u>28,887,285</u>	<u>18,761,597</u>	<u>(21,562,271)</u>	<u>26,086,611</u>
Capital assets, depreciable				
Land improvements	8,565,708	-	896,383	9,462,091
Buildings	66,364,874	(135,936)	17,619,853	83,848,791
Docks and wharves	45,053,730	-	3,288	45,057,018
Equipment	21,718,150	(4,950)	1,257,090	22,970,290
Streets and water utilities	3,994,703	-	942,226	4,936,929
Vehicles and other assets	<u>6,853,422</u>	<u>(143,817)</u>	<u>843,431</u>	<u>7,553,036</u>
Total capital assets, depreciable	<u>152,550,587</u>	<u>(284,703)</u>	<u>21,562,271</u>	<u>173,828,155</u>

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

PROPERTY AND EQUIPMENT (Cont'd.)

	<u>2005</u>	<u>Additions (Retirements)</u>	<u>Transfers</u>	<u>2006</u>
Less accumulated depreciation for:				
Land improvements	3,889,634	490,658	-	4,380,292
Building	11,481,556	1,523,156	-	13,004,712
Docks and wharves	5,453,830	1,077,461	-	6,531,291
Equipment	4,548,115	769,907	-	5,318,022
Streets and water utilities	1,222,584	183,842	-	1,406,426
Vehicles and other assets	<u>4,377,196</u>	<u>358,109</u>	<u>-</u>	<u>4,735,305</u>
Total accumulated depreciation	<u>30,972,915</u>	<u>4,403,133</u>	<u>-</u>	<u>35,376,048</u>
Total capital assets, depreciable, net	<u>121,577,672</u>	<u>4,687,836</u>	<u>21,562,271</u>	<u>138,452,107</u>
Capital assets, net	<u>\$150,464,957</u>	<u>\$14,073,761</u>	<u>\$ -</u>	<u>\$164,538,718</u>

Depreciation expense was \$4,687,094 for 2006 and \$4,343,568 for 2005.

NOTE 6 LEASING REVENUE

The Corporation leases certain Port terminal and storage space to stevedoring and related tenants. Total rental income under these operating leases amounted to \$3,899,813 and \$4,621,289 for 2006 and 2005, respectively.

The following is a schedule of future minimum rentals under noncancelable operating leases as of June 30, 2006.

2007	\$ 4,632,342
2008	4,660,143
2009	3,595,579
2010	2,821,079
2011	1,452,037
Thereafter	<u>1,686,325</u>
	<u>\$18,847,505</u>

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 7 REVOLVING LINE OF CREDIT

The Corporation has a \$3,000,000, unsecured, revolving line of credit from Wilmington Trust Company (WTC) none of which was outstanding at June 30, 2006 and 2005. Bank advances on the credit line are payable within 30 days of demand and carry an interest rate based on WTC's commercial rate index.

NOTE 8 LONG-TERM DEBT

Long-term debt changes during 2006 were as follows:

	Outstanding <u>June 30, 2005</u>	<u>Issued</u>	Payments and Other <u>Reductions</u>	Outstanding <u>June 30, 2006</u>
Transportation Trust Fund Note	\$29,651,606	\$1,379,660	\$ -	\$31,031,266
City of Wilmington Port Debt Service Notes	21,453,229	-	8,053,642	13,399,587
Delaware River and Bay Authority	-	<u>3,400,000</u>	-	<u>3,400,000</u>
Total	51,104,835	<u>\$4,779,660</u>	<u>\$8,053,642</u>	47,830,853
Due in one year	<u>2,984,943</u>			<u>11,432,500</u>
Long-term portion	<u>\$48,119,892</u>			<u>\$36,398,353</u>

Transportation Trust Fund Loan. On November 30, 2001, the Corporation entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The Corporation borrowed \$27,500,000. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note; and, at a discount, the City of Wilmington-Deferred Payment Note.

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next twenty-two years. Additionally, the State appropriated \$10,000,000 to be applied as a repayment of principal and interest in fiscal year 2007. The interest rate of 4.6% remained unchanged. Beginning March 31, 2007, principal and interest payments are due March 1, and May 1, each year. The loan matures May 2028. Interest capitalized during fiscal year 2006, as part of the restructuring, amounted to \$1,379,660.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

LONG-TERM DEBT (Cont'd.)

In July 2005, a similar restructuring occurred whereby the loan was restructured to allow for the deferral of debt service principle and interest payments due July 1, 2005 and January 1, 2006, and to restructure the repayment of the outstanding principle balance effective July 1, 2006 over the next twenty years. Interest capitalized as principal during fiscal year 2005 as part of the restructuring amounted to \$1,318,319.

Interest expense charged to operations in 2006 and 2005 was \$ 1,379,660 and \$1,318,319, respectively.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 592,336	\$ 407,664	\$ 1,000,000
2008	35,243	964,757	1,000,000
2009	656,837	960,759	1,617,596
2010	687,245	930,351	1,617,596
2011	719,060	898,536	1,617,596
2012-2016	4,126,533	3,961,446	8,087,979
2017-2021	5,174,326	2,913,653	8,087,979
2022-2026	6,488,170	1,599,809	8,087,979
After 2026	<u>3,035,234</u>	<u>199,957</u>	<u>3,235,191</u>
	<u>\$21,514,984</u>	<u>\$12,836,932</u>	<u>\$34,351,916</u>

The schedule of future maturities above includes \$483,718 of interest to be capitalized as principal in January 2007. The scheduled repayments are also reduced by \$10,000,000 appropriated by the State for the Corporation in 2007.

City of Wilmington. In consideration for the acquisition of the Port assets from the City of Wilmington, Delaware (the City), the Corporation issued to the City a Port Deferred Payment Note with an original amount of \$39,900,000 and a Port Debt Service Note with an original face amount of \$51,080,622, secured by a first lien on substantially all of the Corporation's assets.

- a. **Port Deferred Payment Note.** In 2002, the remaining amounts due were prepaid to the City using the proceeds from the Transportation Trust Fund Loan.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

LONG-TERM DEBT (Cont'd.)

- b. Port Debt Service Note. The Port Debt Service Note requires payments to the City, of amounts which equal the debt service of certain Port-related City general obligation bonds, with interest rates from 3.2% to 6.4%.

On June 30, 2006, the State of Delaware paid the City on behalf of the Corporation, \$5,000,000, in lieu of amounts due for the Port-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling \$5,645,991, reducing the total amount owed to the City by \$5,645,991. The effect of the advance payment was a reduction of principal in the amount of \$5,087,389, a reduction of accrued interest due July 1, 2006 in the amount of \$308,844, and a resulting gain of \$396,233.

On October 5, 2004, the City issued \$12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund \$11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were \$3,992,497 and \$3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$397,862, it reduces the Corporation's debt service payments by \$251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2006 and 2005 was \$393,559 and \$397,401, respectively

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.70% to advance refund \$21,335,000 of outstanding 1992 A, B and C Series general obligation bonds with an average interest rate of 6.16%. The Port-related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619, it reduced the Corporation's debt service payments by \$281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven-year life of the debt. The deferred loss balance on the 2001 refunding as of June 30, 2006 and 2005 was \$55,587 and \$70,436, respectively.

Total deferred loss balance as of June 30, 2006 and 2005 was \$449,146 and \$467,837, respectively.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

LONG-TERM DEBT (Cont'd.)

Principal and interest payments made on the notes during 2006 were \$2,984,943 and \$1,002,396, respectively. Interest expense in 2006 was \$909,210. Principal and interest payments made on the notes during 2005 were \$3,300,589 and \$902,916, respectively. Interest expense in 2005 was \$872,590.

The future maturities of principal and interest payments on the Port Debt Service Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 671,361	\$ 518,573	\$ 1,189,934
2008	698,531	426,431	1,124,962
2009	2,291,194	540,904	2,832,098
2010	2,405,172	423,648	2,828,820
2011	1,350,612	328,915	1,679,527
2012-2016	3,902,739	979,208	4,881,947
2017-2021	1,878,357	293,140	2,171,497
2022-2026	650,767	27,434	678,201
Deferred loss on refunding	<u>(449,146)</u>	<u>-</u>	<u>(449,146)</u>
Total	<u>\$13,399,587</u>	<u>\$ 3,538,253</u>	<u>\$16,937,840</u>

Delaware River and Bay Authority Obligation. On March 1, 2005, the Corporation entered into an agreement with the Delaware River and Bay Authority (DRBA) whereby the Corporation agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease is \$4,000,000, to be paid in advance. Simultaneously, the Corporation and the DRBA entered into an operating agreement in which the Corporation agreed to make guaranteed payments to the DRBA in the amount of \$21,786, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling \$4,000,000 plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA, secured by revenue from warehouse operations. As of June 30, 2006, \$3,400,000 of the \$4,000,000 had been received by the Corporation. The Corporation will begin making guaranteed payments once the remaining \$600,000 is received, expected in September 2006.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

LONG-TERM DEBT (Cont'd.)

Interest expense incurred on this debt was \$0 for 2006.

The future maturities of principal and interest payments on the DRBA obligation are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 168,803	\$ 49,053	\$ 217,856
2008	205,367	56,060	261,427
2009	208,469	52,958	261,427
2010	211,617	49,810	261,427
2011	214,814	46,613	261,427
2012-2016	933,608	373,526	1,307,134
2017-2021	878,614	428,520	1,307,134
2022-2026	1,135,422	171,712	1,307,134
After 2026	<u>43,286</u>	<u>289</u>	<u>43,575</u>
Total	<u>\$ 4,000,000</u>	<u>\$ 1,228,541</u>	<u>\$ 5,228,541</u>

The schedule of future maturities above includes the \$600,000 expected to be received by the Corporation in 2007.

NOTE 9 CONTRIBUTED CAPITAL

Since its inception, the Corporation has received capital and other contributions from the State of Delaware and Federal grants as follows:

	<u>Inception to Date</u>	<u>2006</u>	<u>2005</u>
State of Delaware	\$137,665,000	\$15,500,000	\$14,500,000
Federal	<u>3,092,577</u>	<u>210,414</u>	<u>1,489,272</u>
Total	<u>\$140,757,577</u>	<u>\$15,710,414</u>	<u>\$15,989,272</u>

The Federal capital contribution of \$210,414 in 2006 represents reimbursement for the amount expended by the Corporation during 2005 under U.S. Department of Homeland Security grants (See Note 2).

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 10 PENSION PLAN

Plan Description. The Diamond State Port Corporation Pension Plan (the Plan) is a single-employer defined benefit pension plan which covers all employees of the Corporation. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. A member may retire after completing five years of service and after reaching normal retirement age of sixty-five. Benefits vest after five years of credited service at 50%, then increasing by 10% per year and fully vesting after ten years. If an employee terminates his or her employment after at least five years of credited service but before normal retirement age, he or she may defer pension benefits until reaching retirement age. Employees who retire after reaching normal retirement age with at least five years of credited service are entitled to receive pension benefits equal to 1.75% of their final average monthly compensation multiplied by the years of credited service (not to exceed 30 years).

Disability benefits are generally the same as pension benefits, however, employees must have 15 years of credited service, subject to certain limitations. Survivors' benefits are generally equal to 50% of the pension benefit the employee would have received at age sixty-five if at least 15 years of credited service are obtained.

The Delaware Public Employees' Retirement System, which administers the Diamond State Port Corporation Pension Plan, issues a publicly available financial report, including financial statements and required supplementary information. The report may be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402, or by calling 1-800-722-7300.

Funding Policy. Contribution requirements are determined by the State Board of Pension Trustees principally based on an actuarially determined rate. Plan members are required to contribute 2% of their compensation.

Annual Pension Cost and Net Pension Obligation. The Corporation contributed 100% of its annual required contribution during the fiscal years 2006, 2005 and 2004. Accordingly, there was no net pension obligation as of June 30, 2006, 2005 and 2004. The annual pension cost was equal to the annual required contribution of \$681,676 in 2006, \$356,596 in 2005, and \$391,162 in 2004.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

PENSION PLAN (Cont'd.)

The annual required contribution for the current year was determined as part of the June 30, 2005 actuarial valuation (the most recent available valuation) using the Entry Age Normal Actuarial Cost method. The actuarial assumptions included (a) 8.00% investment rate of return and (b) projected salary increases of 4.8% which included an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 17 years.

The following provides an analysis of the funding progress of the Plan as of June 30, 2005, 2004, and 2003:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial	Actuarial	Actuarial	Unfunded	Funded	Annualized	UAAL as a
Valuation	Value of	Accrued	AAL	Ratios	Covered	Percentage
Date	Assets	Liability	(UAAL)	(1)/(2)	Payroll	of
		(AAL)	(2)-(1)			Covered
						Payroll
						(3)/(5)
June 30, 2005	\$8,948,000	\$9,732,000	\$ 784,000	91.9%	\$9,248,000	8.5%
June 30, 2004	\$8,140,000	\$9,049,000	\$ 909,000	90.0%	\$8,950,000	10.2%
June 30, 2003	\$7,328,000	\$7,056,000	\$(272,000)	103.9%	\$8,636,000	(3.1)%

Contribution requirements are determined by the State Board of Pension Trustees and the Corporation has contributed 100% of the required amounts.

NOTE 11 LEASE COMMITMENTS

Capital Lease. The Corporation leased high-speed freezer doors under capital leases which expired in 2006. Depreciation of assets under capital leases is included in depreciation expense. The cost of assets under capital leases was \$142,389 at June 30, 2006 and 2005. Accumulated depreciation was \$52,209 and \$42,717 at June 30, 2006 and 2005, respectively.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

LEASE COMMITMENTS (Cont'd.)

Operating Leases. The Corporation leased forty forklifts and a number of other vehicles under eighteen month to five year operating leases expiring in 2007. Rental payments under long-term leases for 2006 were \$254,734. The Corporation bought out the equipment on all remaining leases in 2006 and 2007.

Minimum future annual rentals are as follows:

	<u>Operating Leases</u>
2007	\$ 590

The Corporation also leases various equipment and outside storage space on a short-term basis for its operations. Total rental expense was \$1,159,660 and \$677,193 for 2006 and 2005, respectively.

NOTE 12 RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries and illnesses to employees, and natural disasters. The Corporation buys commercial insurance to cover the risk of these losses with the exception of workers' compensation claims, where the Corporation is self-insured through the State of Delaware's self-insurance program. Settled claims have not exceeded the commercial insurance limits in any of the past five fiscal years. The Corporation was obligated to pay to the State's program a monthly charge equal to \$1.60 and \$1.23 per \$100 of payroll which was \$219,338 and \$143,886 for the years ended June 30, 2006 and 2005, respectively.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 13 DEFERRED COMPENSATION PLAN

The Corporation offers all full-time employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until a future time. The employee may withdraw funds upon termination of the employment relationship with the Corporation, retirement, death, or unforeseeable financial hardship. The Corporation does not make contributions to the plan.

Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The Corporation has very little administrative involvement, performs no investing function, and has no fiduciary responsibility for this plan. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants and are not subject to claims of the Corporation's creditors. Accordingly, these plan assets are not reported as a part of these financial statements.

NOTE 14 MAJOR CUSTOMERS

Two major customers of the Corporation combined to account for approximately 42.3% of operating revenues for the year ended June 30, 2006, and 34.4% for the year ended June 30, 2005.

NOTE 15 COLLECTIVE BARGAINING

The Corporation employs 281 full-time and part-time benefits eligible employees. Seventy (70) full-time employees are represented by the International Longshoreman's Association - Local 1694-1, under a collective bargaining agreement which was ratified in September, 2005 and expires September 30, 2007. One-hundred forty-five (145) part-time employees (only those working over 800 hours in a calendar year) are also represented by the International Longshoremen's Association - Local 1694-1, under the same collective bargaining agreement. Eleven (11) full-time employees are represented by the International Brotherhood of Teamsters - Local 326, under a collective bargaining agreement. There are fifty-five (55) administrative employees not covered under collective bargaining agreements. The Corporation also employs a number of casual employees hired as needed on a daily basis to supplement the unionized work force that are not covered by a collective bargaining agreement.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 16 COMMITMENTS AND CONTINGENCIES

Construction and Renovation Contracts. The Corporation has various contracts for construction and renovation of significant facilities located on its property at the Port in accordance with the Capital Budget approved by its Board of Directors. As of June 30, 2006 the Corporation had construction in progress of \$582,201. Funding for capital projects has been received from operations, the State of Delaware and the U.S. Department of Homeland Security. As of June 30, 2006, the Corporation had \$7,131,866 in cash and equivalents committed to capital projects.

Environmental Contingencies. Under the provisions of the Port of Wilmington Acquisition Agreement dated September 1, 1995, the City retains responsibility for all liabilities under environmental laws that arise out of, or result from, any condition existing at the Port on or before, the agreement closing date, September 8, 1995.

On February 14, 2002, the Agreement was amended and in conjunction with the prepayment of the Port Deferred Payment Note, the Corporation agreed to assume responsibility for up to \$2,000,000 of potential environmental liabilities. To date, no such liabilities have been identified.

Litigation and Claims. The Corporation is party to various claims and legal proceedings which normally occur in governmental and port operations. These claims and legal proceedings are not likely to have a material adverse impact on the Corporation. In addition, the Corporation currently has approximately \$75,000 accrued for pending claims or threatened litigation for which unfavorable outcome is considered probable. The amount of the accrual is based on the Corporation's experience, insurance coverages, legal opinions and other factors.

NOTE 17 INSURANCE RECOVERIES

Insurance recoveries include in other operating revenue amounted to \$239,933 and \$0 in 2006 and 2005, respectively.

DIAMOND STATE PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 18 RECLASSIFICATIONS

Reclassifications were made to certain prior year amounts in order to conform with the current year classifications which more closely follow those used by the state of Delaware (the primary government) in its Comprehensive Annual Financial Report. The reclassifications have no effect on reported net income.

DIAMOND STATE PORT CORPORATION

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

JUNE 30, 2006

DIAMOND STATE PORT CORPORATION

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
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Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Independent Auditors' Report

To the Board of Directors
Diamond State Port Corporation

We have audited the financial statements of the Diamond State Port Corporation as of and for the year ended June 30, 2006, and have issued our report thereon dated August 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Diamond State Port Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Diamond State Port Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

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Independent Auditors' Report (Cont'd.)

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and the audit committee, management, others within the organization, Office of the Governor, Office of Controller General, Office of Attorney General, Office of the Budget, Department of Finance, and Office of Auditor of Accounts and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

McBride, Shapiro & Co

Wilmington, Delaware
August 1, 2006

DIAMOND STATE PORT CORPORATION
SCHEDULE OF REPORTABLE CONDITIONS AND
OTHER COMMENTS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

CURRENT YEAR

REPORTABLE CONDITIONS

NONE

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

REPORTABLE CONDITIONS

DEPARTMENT OF HOMELAND SECURITY

05-1 Urban Areas Security Initiative Program-CFDA No. 97.008

Condition: The Corporation did not complete suspension and debarment documentation and verification for either of two contracts selected for testing. However, neither contractor was found to be suspended or debarred upon review during the audit. The total amount paid through the two contracts was \$1,439,175.

Recommendation: We recommended that the Corporation implement controls to include in its requests for proposals a request for the respondent to certify that it is not on the suspended or debarred listing or, when not obtained, checking for suspended and debarred parties in the Excluded Parties List System.

Current Status: The recommendation was adopted by the Corporation. There were no requests for proposals involving federal funds and no similar findings noted in 2006.

DIAMOND STATE PORT CORPORATION
SCHEDULE OF REPORTABLE CONDITIONS AND
OTHER COMMENTS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

05-2 Urban Areas Security Initiative Program-CFDA No. 97.008

Condition: The Corporation capitalized and placed into service improvements purchased partly with federal funds, with the federal portion amounting to \$65,000. These improvements were not identified as being purchased with federal funds in the Corporation's fixed asset records.

Recommendation: We recommended that the Corporation implement controls in its fixed asset recording procedures which include separate identification of assets purchased with federal funds.

Current Status: The recommendation was adopted by the Corporation. All fixed assets purchased with federal funds have been reclassified and are now separately identified in the Corporation's records.